

**FINANCIAL REPORT  
CHANDLER TOWNSHIP  
CHARLEVOIX COUNTY  
June 30, 2008**

**CHANDLER TOWNSHIP  
FINANCIAL REPORT  
June 30, 2008**

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**Hill • Schroderus & Co., LLP**  
Certified Public Accountants & Consultants

December 17, 2008

Independent Auditors' Report

Township Board  
Chandler Township, Michigan  
Charlevoix County, Michigan

We have audited the accompanying financial statements of the governmental activities, and each major fund of Chandler Township, Michigan, as of and for the year ended June 30, 2008, which collectively comprise the Township's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Township's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, and each major fund, of Chandler Township, as of June 30, 2008, and the respective changes in financial positions thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Township has not presented management's discussion and analysis that accounting principles generally accepted in the United States of America has determined to supplement, although not required to be part of the basic financial statements.

*Hill, Schroderus & Co.*

CERTIFIED PUBLIC ACCOUNTANTS  
Petoskey, Michigan

**CHANDLER TOWNSHIP**  
**Statement of Net Assets**  
**June 30, 2008**

	Governmental Activities
<b><u>Assets</u></b>	
<b>Current Assets</b>	
Cash	\$ 71,845
Investments	111,230
Due from other governments	3,147
Due from fiduciary fund	4
Total current assets	186,226
<b>Noncurrent Assets</b>	
Capital assets	174,183
Less: accumulated depreciation	(128,764)
Total noncurrent assets	45,419
Total assets	\$ 231,645
<b><u>Net Assets</u></b>	
<b>Net Assets</b>	
Investment in capital assets	\$ 45,419
Restricted for :	
Fire operations	35,314
Fire equipment	25,531
Unrestricted	125,381
Total net assets	\$ 231,645

**CHANDLER TOWNSHIP**  
**Statement of Activities**  
**Year Ended June 30, 2008**

Functions/Programs	Expenses	Program Revenues		Net Revenue (Expense) and Changes in Net Assets
		Charges for Services	Operating Grants and Contributions	Governmental Activities
Governmental Activities:				
General government	\$ 40,978	\$ 6,039	\$ -	\$ (34,939)
Public safety	11,420	-	250	(11,170)
Public Works	7,865	-	1,690	(6,175)
Community and economic development	5,013	-	-	(5,013)
Depreciation (unallocated)	8,014	-	-	(8,014)
Total governmental activities	<u>\$ 73,290</u>	<u>\$ 6,039</u>	<u>\$ 1,940</u>	<u>(65,311)</u>
General Revenues:				
Taxes:				
Property taxes, levied for general purposes				34,563
Property taxes, levied for fire operations/equipment				17,708
State shared revenues				15,726
Interest				4,290
Other				<u>2,710</u>
Total general revenues				<u>74,997</u>
Change in net assets				9,686
Net assets - beginning of year				<u>221,959</u>
Net assets - end of year				<u>\$ 231,645</u>

**CHANDLER TOWNSHIP**  
**Governmental Funds**  
**Balance Sheet**  
**June 30, 2008**

	<u>General</u>	<u>Fire</u>	<u>Total</u>
<b><u>Assets</u></b>			
Cash	\$ 11,000	\$ 60,845	\$ 71,845
Investments	111,230	-	111,230
Due from other governments	3,147	-	3,147
Due from other funds	4	-	4
	<u>          </u>	<u>          </u>	<u>          </u>
Total assets	<u>\$ 125,381</u>	<u>\$ 60,845</u>	<u>\$ 186,226</u>
 <b><u>Fund Balances</u></b>			
Fund Balances:			
Reserved for:			
Fire operations	\$ -	\$ 35,314	\$ 35,314
Fire equipment	-	25,531	25,531
Undesignated	125,381	-	125,381
	<u>          </u>	<u>          </u>	<u>          </u>
Total fund balances	<u>\$ 125,381</u>	<u>\$ 60,845</u>	<u>\$ 186,226</u>

**CHANDLER TOWNSHIP**  
**Governmental Funds**  
**Reconciliation of the Governmental Funds Balance Sheet to**  
**the Statement of Net Assets**  
**June 30, 2008**

<b>Total Fund Balances - Governmental Funds</b>	\$ 186,226
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Amounts reported for governmental activities in the statement  
of net assets are different because:

Capital assets used in governmental activities are not financial  
resources and are not reported in the governmental funds  
balance sheet

Cost of capital assets	174,183
Accumulated depreciation	<u>(128,764)</u>

Total net assets - governmental activities	<u>\$ 231,645</u>
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**CHANDLER TOWNSHIP**  
**Governmental Funds**  
**Statement of Revenues, Expenditures and Changes in Fund Balances**  
**Year Ended June 30, 2008**

	<u>General</u>	<u>Fire</u>	<u>Total</u>
<b>Revenues:</b>			
Taxes	\$ 34,563	\$ 17,708	\$ 52,271
State revenue	17,416	-	17,416
Charges for service	6,039	-	6,039
Interest	4,069	221	4,290
Other	886	2,074	2,960
	<u>62,973</u>	<u>20,003</u>	<u>82,976</u>
Total revenues			
<b>Expenditures:</b>			
Current:			
General government	40,978	-	40,978
Public safety	-	11,420	11,420
Public works	7,865	-	7,865
Community and Economic Development	5,013	-	5,013
Capital Outlay	-	5,000	5,000
	<u>53,856</u>	<u>16,420</u>	<u>70,276</u>
Total expenditures			
<b>Net change in fund balance</b>	9,117	3,583	12,700
<b>Fund balances - beginning of year</b>	<u>116,264</u>	<u>57,262</u>	<u>173,526</u>
<b>Fund balances - end of year</b>	<u><u>\$ 125,381</u></u>	<u><u>\$ 60,845</u></u>	<u><u>\$ 186,226</u></u>



**CHANDLER TOWNSHIP**  
**Governmental Funds**  
**Reconciliation of the Statement of Revenues, Expenditures**  
**and Changes in Fund Balances of Governmental Funds**  
**to the Statement of Activities**  
**Year Ended June 30, 2008**

<b>Net Change in Fund Balances - Total Governmental Funds</b>	<b>\$ 12,700</b>
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Amounts reported for governmental activities in the statement  
of net assets are different because:

Governmental funds report capital outlays as expenditures. However,  
in the statement of activities, the cost of these assets is allocated over  
their estimated useful lives as depreciation.

Expenditures for capital assets	5,000
Current year depreciation	<u>(8,014)</u>

Change in net assets - governmental activities	<u><u>\$ 9,686</u></u>
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**CHANDLER TOWNSHIP**  
**Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual**  
**General Fund**  
**Year Ended June 30, 2008**

	Original Budget	Final Budget	Actual	Variance with Final Budget Over/(Under)
<b>Revenues:</b>				
Taxes	\$ 36,000	\$ 36,000	\$ 34,563	\$ (1,437)
State revenue	15,000	15,000	17,416	2,416
Charges for services	4,800	4,800	6,039	1,239
Interest	4,300	4,300	4,069	(231)
Other	3,153	3,153	886	(2,267)
<b>Total revenues</b>	<b>63,253</b>	<b>63,253</b>	<b>62,973</b>	<b>(280)</b>
<b>Expenditures:</b>				
Current:				
General government:				
Legislative	2,500	2,500	1,883	(617)
Supervisor	3,900	3,900	3,348	(552)
Clerk	5,475	5,475	5,283	(192)
Treasurer	6,475	6,475	5,791	(684)
Assessor	4,700	4,700	4,395	(305)
Elections	-	500	495	(5)
Building and grounds	12,757	6,257	4,119	(2,138)
Legal	1,800	1,800	3,710	1,910
Cemetery	1,500	500	1,195	695
Unallocated	15,146	14,146	10,759	(3,387)
<b>Total general government</b>	<b>54,253</b>	<b>46,253</b>	<b>40,978</b>	<b>(5,275)</b>
Community and Economic Development:				
Zoning	3,500	9,000	5,013	(3,987)
Public works:				
Road maintenance and repair	3,500	6,500	6,365	(135)
Transfer station	2,000	1,500	1,500	-
<b>Total public works</b>	<b>5,500</b>	<b>8,000</b>	<b>7,865</b>	<b>(135)</b>
<b>Total expenditures</b>	<b>63,253</b>	<b>63,253</b>	<b>53,856</b>	<b>(9,397)</b>
<b>Net change in fund balance</b>	<b>-</b>	<b>-</b>	<b>9,117</b>	<b>9,117</b>
<b>Fund balance - beginning of year</b>	<b>112,262</b>	<b>112,262</b>	<b>116,264</b>	<b>4,002</b>
<b>Fund balance - end of year</b>	<b>\$ 112,262</b>	<b>\$ 112,262</b>	<b>\$ 125,381</b>	<b>\$ 13,119</b>

**CHANDLER TOWNSHIP**  
**Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual**  
**Fire Fund**  
**Year Ended June 30, 2008**

	Original Budget	Final Budget	Actual	Variance with Final Budget Over/(Under)
<b>Revenues:</b>				
Taxes	\$ 9,000	\$ 9,000	\$ 17,708	\$ 8,708
Interest	28	28	221	193
Other	-	-	250	250
Sale of assets	-	-	1,824	1,824
Total revenues	9,028	9,028	20,003	10,975
<b>Expenditures:</b>				
Public Safety:				
Current	9,950	9,950	11,420	1,470
Capital outlay	-	-	5,000	5,000
	9,950	9,950	16,420	6,470
<b>Net change in fund balance</b>	(922)	(922)	3,583	4,505
<b>Fund balance - beginning of year</b>	57,242	57,242	57,262	20
<b>Fund balance - end of year</b>	\$ 56,320	\$ 56,320	\$ 60,845	\$ 4,525

**CHANDLER TOWNSHIP**  
**Fiduciary Fund**  
**Statement of Fiduciary Net Assets**  
**June 30, 2008**

	<u>Agency Fund</u>
<b>Assets</b>	
Cash	<u>\$          4</u>
<b>Liabilities</b>	
Due to other funds	<u>\$          4</u>

**CHANDLER TOWNSHIP**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2008**

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The Township operates under a Board-Supervisor form of government and provides the following services as authorized by its charter: public safety (fire), highways and streets, public improvements, planning and zoning, and general administrative services.

The Township's financial statements are prepared in accordance with generally accepted accounting principles (GAAP). The Governmental Accounting Standards Board (GASB) is the standard-setting body for governmental accounting and financial reporting. The Township's reporting entity applies all relevant Governmental Accounting Standards Board (GASB) pronouncements. The following is a summary of the significant policies used by Chandler Township:

**REPORTING ENTITY**

The accompanying financial statements have been prepared in accordance with criteria established by GASB No. 14, and amended by GASBS No. 39. GASBS 14 states that the primary basis for determining whether outside agencies and organizations should be considered component units of the Township and included in the Township's financial statements is financial accountability. Financial accountability has been defined as follows: A primary government has substantive authority to appoint a voting majority of the component unit's board; the primary government is either able to impose its will on a component unit or there is a potential for the component unit to provide specific financial burdens on the primary government; and the component unit is fiscally dependent on the primary government. The Township has no component units.

**BASIC FINANCIAL STATEMENTS – OVERVIEW**

The Township's basic financial statements include both government-wide (reporting the Township as a whole) and fund financial statements (reporting the Township's major funds). Both the government-wide and the fund financial statements categorize primary government activities as governmental.

**BASIC FINANCIAL STATEMENTS – GOVERNMENT-WIDE STATEMENTS**

The government-wide financial statements report information on all of the non-fiduciary activities of the primary government. The government-wide focus is more on operational efficiency, the sustainability of the Township as an entity and the change in the Township's net assets resulting from the current year's activities.

In the government-wide Statement of Net Assets, the governmental activities are presented on a consolidated basis. Due to the full accrual, economic resource basis, all long-term assets and receivables, as well as long-term debt and obligations are recognized. The Township's net assets are reported in three parts – invested in capital assets, net of related debt; restricted net assets; and unrestricted net assets. The Township first utilizes restricted resources to finance qualifying activities.

## NOTES TO FINANCIAL STATEMENTS – CONTINUED

### NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

#### BASIC FINANCIAL STATEMENTS – GOVERNMENT-WIDE STATEMENTS – CONTINUED

The government-wide Statement of Activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. This statement reduces gross expenses (including depreciation) by related program revenues, which includes charges for services, operating grants and capital grants.

The program revenues must be directly associated with the function. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported as general revenue.

#### BASIC FINANCIAL STATEMENTS – FUND FINANCIAL STATEMENTS

The financial transactions of the Township are reported in individual funds in the fund financial statements. Each fund is accounted for by providing a separate set of self-balancing accounts that comprise its assets, liabilities, fund balances, revenues and expenditures. The focus of the fund financial statement is upon the determination of financial position and changes in financial position (sources, uses, and balances of financial resources).

Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. The emphasis in the fund financial statements is on the major funds in the governmental type category. GASBS No. 34 sets forth minimum criteria (percentage of the assets, liabilities, revenues or expenditures/expenses of the governmental and proprietary funds) for the determination of major funds.

#### Governmental Funds

The following is a description of the major governmental funds of the Township:

**General Fund** – The General Fund is the general operating fund of the Township. It is used to account for all financial resources except those required to be accounted for in another fund.

**Fire Fund** – The fire fund is used to account for fire protection services provided by the Township. Primary financing is provided by the Township's property tax levy, which is restricted for fire protection and fire equipment.

## NOTES TO FINANCIAL STATEMENTS – CONTINUED

### NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

#### BASIC FINANCIAL STATEMENTS – FUND FINANCIAL STATEMENTS – CONTINUED

##### Fiduciary Fund

Fiduciary funds are used to account for assets held by the Township in a trustee or agent capacity. Since, by definition, these assets are being held for the benefit of a third party (other local governments, private parties, etc.) and cannot be used to address activities or obligations of the government, these funds are not incorporated into the government-wide statements. Agency funds use the accrual basis of accounting, which reports only assets and liabilities. The following is a description of the fiduciary fund maintained by the Township.

**Agency Fund** – The Agency Fund accounts for the collection and payments of property tax levies.

##### **BASIS OF ACCOUNTING**

Basis of accounting refers to the point at which revenues and expenditures are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

The government-wide statements are reported using the economic resources measurement focus and the full accrual basis of accounting, which incorporates long-term assets and receivables as well as long-term debt and obligations. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. Expenditures generally are recorded when a liability is incurred.

The agency fund is accounted for using the full accrual basis of accounting. The Township's agency fund records liabilities when property taxes are received.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recorded in the accounting period in which they are earned, as long as they are both available and measurable. Revenues are available when received within the current period or within 60 days after year end. Expenditures are recorded in the accounting period in which the liability is incurred, as under full accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

## NOTES TO FINANCIAL STATEMENTS – CONTINUED

### NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

#### ASSETS, LIABILITIES, AND NET ASSETS

##### Cash and Cash Equivalents

Cash and cash equivalents are considered to be cash on hand and demand deposits.

##### Interfund Receivables/Payables

Outstanding balances between funds are reported as "due to/from other funds" on the balance sheet of the fund financial statements and as "internal balances" on the Statement of Net Assets of the government-wide financial statements.

##### Capital Assets

Capital assets, which include property, buildings and equipment, are reported in the applicable governmental activities column in the government-wide financial statements.

Capital assets are recorded by the Township when the initial individual costs are equal to or greater than the following amounts:

<u>Asset Type</u>	<u>Amount</u>
Land	\$ 1
Equipment	1,000
Buildings	1,000
Land Improvements	1,000

Capital assets are recorded at historical cost or estimated historical cost if purchased or constructed.

Property, buildings and equipment are depreciated using the straight-line method over the following useful lives:

Buildings	40 years
Land Improvements	20 years
Equipment	5-7 years

##### Fund Equity

In the fund financial statements, governmental funds report reserved fund balances for amounts that are not available for appropriation or are legally restricted by outside parties for specific purposes.



## NOTES TO FINANCIAL STATEMENTS – CONTINUED

### NOTE 2: STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all operating funds of the Township except for the agency fund. Budgetary control is legally maintained at the fund level.

The Township follows these procedures in establishing the budgetary data reflected in the financial statements:

1. Public hearings are conducted at the Township Hall to obtain taxpayer comments.
2. The budget is legally enacted through passage of an ordinance.
3. Budgets for the General Fund and Fire Fund are adopted at the total fund level. Budgeted amounts are as originally adopted, or as amended by the Township Board during the year.

#### Excess of Expenditures Over Appropriations in Budgetary Funds

Excess of Expenditures Over Appropriations in Budgetary Funds P.A. 621 of 1978, as amended, provides that a local unit shall not incur expenditures in excess of the amount appropriated.

In the body of the financial statements, the Township's actual expenditures and budgeted expenditures for the budgetary funds have been shown on a functional basis. The approved budgets of the Township for these budgetary funds were adopted on a fund basis.

<u>Fund</u>	<u>Total Appropriations</u>	<u>Amount of Expenditures</u>	<u>Budget Variance</u>
Fire Fund	\$ 9,950	\$ 16,420	\$ 6,470

### NOTE 3: CASH DEPOSITS

Michigan Compiled Laws, Section 129.91, authorizes the Township to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations, which have an office in Michigan. The Township is allowed to invest in bonds, securities and other direct obligations of the United States or any agency or instrumentality of the United States; United States government or federal agency obligations; repurchase agreements; bankers' acceptance of United States banks; commercial paper rated within the two highest classifications which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions which are rated as investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan.

#### Custodial Credit Risk – Deposits

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. At June 30, 2008, the carrying amount of the Township's deposits, including the fiduciary fund, was \$71,845 and the bank balance was \$71,933. Of the above balance in cash, \$71,933 was covered by federal depository insurance. The Township may experience significant fluctuations in deposit balances throughout the year.

## NOTES TO FINANCIAL STATEMENTS – CONTINUED

### NOTE 3: CASH DEPOSITS – CONTINUED

#### Credit Risk – Investments

At year-end the townships investment in JPMorgan Chase Investment Governmental MMF investment pool of \$111,230 was rated Aaa by Moody's.

### NOTE 4: PROPERTY TAX

Property taxes attach as an enforceable lien on property as of December 1. Taxes are levied in December and are payable from December through February 14. The Township bills and collects its own property taxes and also taxes for other governmental units. Collections of the other governmental units' taxes and remittance of them to the units are accounted for in the Agency Fund. Property tax revenues are recognized in the year for which they are levied.

The Township is permitted by state law, subject to State Headlee and Truth in Taxation provisions, to levy taxes up to \$1 per \$1,000 of assessed valuation for general government services.

The tax rates for the year ended June 30, 2008 are as follows:

<u>Purpose</u>	<u>Rate/Assessed Valuation</u>
General government service	\$1.0 per \$1,000
Fire protection and equipment	\$1.0 per \$1,000

### NOTE 5: INTERFUND RECEIVABLES AND PAYABLES

The inter-fund balances within the primary government are as follows:

	<u>Interfund Receivable</u>	<u>Interfund Payable</u>
General	\$ 4	\$ -
Fiduciary Fund	<u>-</u>	<u>4</u>
	<u>\$ 4</u>	<u>\$ 4</u>

The Fiduciary Fund owes the General Fund for interest collected on delinquent property taxes.

## NOTES TO FINANCIAL STATEMENTS – CONTINUED

### NOTE 6: CAPITAL ASSETS

Capital asset activity of the Township's primary government for the current year was as follows:

	Balance July 1, 2007	Additions	Deletions	Balance June 30, 2008
<b>Governmental Activities</b>				
Capital assets not being depreciated:				
Land	\$ 12,853	\$ -	\$ -	\$ 12,853
Capital assets being depreciated:				
Buildings	75,000	-	-	75,000
Land improvements	6,836	-	-	6,836
Equipment	78,144	5,000	(3,650)	79,494
Subtotal	159,980	5,000	(3,650)	161,330
Less accumulated depreciation:				
Buildings	(52,500)	(1,875)	-	(54,375)
Land improvements	(6,836)	-	-	(6,836)
Equipment	(65,064)	(6,139)	3,650	(67,553)
Subtotal	(124,400)	(8,014)	3,650	(128,764)
Net capital assets being depreciated:	35,580	(3,014)	-	32,566
Governmental activities net capital assets	\$ 48,433	\$ (3,014)	\$ -	\$ 45,419

Depreciation expense was unallocated between function in the statement of net assets.

### NOTE 7: DEFINED CONTRIBUTION PLAN

The Township provides pension benefits for all Township board members, caretaker and the zoning administrator through a defined contribution plan, in a defined contribution plan, benefits depend solely on amounts contributed on the plan plus investment earnings. Employees are eligible to participate from the date of employment. Past service, credit is calculated as 3% of current compensation for each year of past service to a maximum of ten years. The plan requires the township to contribute 6% of the employee's base annual salary each year. The employees may also contribute up to 6% of their salary to the plan. Contributions for each employee (and interest allocated to the employee's account) are fully vested immediately.

The Township's required contribution of 6% for fiscal year 2008 was \$1,053 including administration fee of \$190.

## NOTES TO FINANCIAL STATEMENTS – CONTINUED

### **NOTE 8: SUBSEQUENT TRANSACTIONS**

The Township contracted with MGM Construction a business that the clerk owns. They were hired to do various repairs to the Township Hall. The work was completed in September of 2008 and a payment of \$22,552 was made.

### **NOTE 9: RISK MANAGEMENT**

The Township belongs to the Michigan Municipal Liability and Property Pool, a public entity risk pool currently operating as a common risk management and insurance program for various municipalities throughout the state. The Township pays an annual premium for its general insurance coverage. The pool is self-sustaining through member premiums and reinsures through commercial companies for claims in excess of \$500,000 for each insured event.



**Hill • Schroderus & Co., LLP**  
Certified Public Accountants & Consultants

December 17, 2008

COMMUNICATION OF MATERIAL WEAKNESS IN INTERNAL CONTROL AND OTHER MATTERS

Township Board  
Chandler Township  
Charlevoix County, Michigan

In planning and performing our audit of the financial statements of the governmental activities and each major fund of Chandler Township as of and for the year ended June 30, 2008, in accordance with auditing standards generally accepted in the United States of America, we considered Chandler Township's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the governmental unit's internal control. Accordingly, we do not express an opinion on the effectiveness of the governmental unit's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified a certain deficiency in internal control that we consider to be a material weakness.

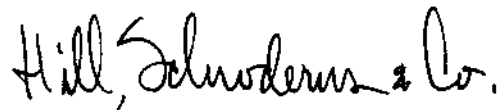
A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or a combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. We believe that the following deficiency constitutes a material weakness:

The Township does not have the expertise to prepare financial statements in accordance with generally accepted accounting principles. According to newly issued auditing standards this inability to prepare financial statements in accordance with generally accepted accounting principles is an indicator of a significant deficiency and a strong indicator of a material weakness in internal control.

We did note the Township's management does possess the skill necessary to prepare and monitor the annual budget. The accounting system which is designed primarily for budgetary purposes is also used as the source information in preparing the financial statements in accordance with generally accepted accounting principles with some adjustment, format differences and note disclosures.

This communication is intended solely for the information and use of management, Township Board, others within the organization, and State of Michigan and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink that reads "Hill, Schroderus & Co." in a cursive, flowing script.

HILL, SCHRODERUS & CO.  
Certified Public Accountants